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# OUR QUEST OF FOREIGN TRADE

BY C. T. REVERE

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At last the restless energy hitherto largely expended in developing and supplying the greatest "home" market in the world is turning to broader fields for conquest. American commerce also comes seeking a "place in the sun." Oversea trade is no longer to be viewed with casual condescension—gratefully accepted in seasons of surplus production or periods of depression, to be forgotten when domestic demand again stretches forth eager hands. Belated, but none the less deep-seated, has come the conviction that foreign markets can be won if they are treated as primary markets, whose requirements should receive as much unremitting care and study as our own, instead of regarding them as the outlet for our overflow or the cemetery of our manufacturing mistakes.

On previous occasions we have made spasmodic efforts to "capture foreign trade." In each instance, however, the flutter has died away when the gale of boisterous publicity subsided. Our prospective customers, especially in the Latin-American countries, have been inclined to view these forays as a scramble after the nimble dollar, and have cast their lot with the slow shilling and the equally slow and perhaps surer mark. Old Europe, wise with the seasoning commercial experience of centuries, has smiled cannily at our boasts over "favorable trade balances," taken our shipments of raw materials, and grown still richer in returning these same raw materials in the form of manufactured goods. Nay, Europe has been even painfully solicitous about encouraging American exports—of foodstuffs and raw materials. She can view with undisturbed complacency consecutive decades of "favorable trade balances" furnished at the expense of impoverished soil, depleted mines, and denuded forests.

Affording a clear relief against the confusing blur created by our feverish outbursts of foreign trade activity stand the notable successes achieved by certain branches of American industry. Backed by well-organized sales departments, offering merchandise of an approved and established standard or articles possessing the unique stamp of Yankee ingenuity, considering the needs and wishes of oversea customers as deserving of attention as domestic requirements, they have blazed the trail into every country on the globe. This pioneer task has been performed chiefly by the leaders in American enterprise—"big business," if you will—but the path worn by these exports of steel, oil, and tobacco products, farm implements, sewing-machines, cash registers, and typewriters can be followed by thousands of small manufacturers, with the reward contingent chiefly on their attitude and methods.

In the first place, we are no longer almost exclusively an agricultural people. In 1880 the products of the soil formed 84 per cent. of our total exports; in 1913 the proportion had dropped to 46 per cent. In 1880 manufactures constituted 15 per cent. of our exports, and in 1913 this proportion had increased to 49 per cent. In spite of the fact that more than 60 per cent. of the world's acreage of corn is located within our boundaries, we imported more than 8,000,000 bushels of this cereal from the beginning of October, 1913, to the end of February, 1914. While the miracle of this season's wheat crop has again furnished occasion for agricultural optimism, our farming methods will have to undergo a decided improvement if our supply of breadstuffs is to be more than adequate for domestic consumption.

In addition to the gradual shift from an agricultural to an industrial basis it is necessary to consider certain other features, less fundamental, perhaps, but equally potent in their bearing on the character of our commerce. The new tariff law has been accepted as placing us on a competitive basis with other manufacturing countries. In order to maintain our place in our own markets we must equip ourselves to fight for other markets. Our surrender of neutral ground to European competitors enables them to reap the advantage of larger profits, thus affording the sinews for the campaign to capture American trade on a price basis which the domestic manufacturer cannot meet.

The opening of the Panama Canal furnishes a new high-

way for the commerce of the Western Hemisphere. The nations which reap its advantages will be those which best avail themselves of it. While certain unjustified hopes may have risen regarding the benefits which the Federal Reserve law will confer in the promotion of foreign trade, it is at least conceded that it helps to carry out the declared purpose of President Wilson that trade shall be set free. The privilege granted to Federal Reserve banks for the establishment of foreign agencies paves the way for the creation of direct banking relations with other countries, the lack of which has always been regarded as a restraint upon our oversea commerce.

The following factors, therefore, may be regarded as furnishing the underlying basis for our efforts to obtain an increased share of foreign trade: Changing industrial conditions, a tariff forcing us into manufacturing competition with older countries, the benefits held out by the completion of the Panama Canal, and new advantages believed to have been created by the passage of our new currency law. The time was ripe. Then as if to give dramatic emphasis to the hour that had been struck, the paralysis attendant upon war benumbed the energies of the Old World and for a period has given us uncontested access to all neutral markets. Accident or augury, an opportunity has arisen such as never existed before. Are we equal to it?

Foreign students of our commercial life take the view that we are never likely to succeed permanently as important factors in world commerce, chiefly because it is not a matter of life and death with us. According to the last decennial census, our manufactured products in 1909 reached the enormous total of \$20,672,052,000. Estimates by the Bureau of Manufactures based on this showing placed our total manufactured products last year at \$25,000,000,000. This is more than the total of the manufactured products of England, Germany, France, Belgium, and Holland combined. Our foreign exports last year reached a total of \$2,484,000,000, of which \$1,185,000,000 consisted of manufactures. Our exports of manufactures, therefore, represent only 4.7 per cent. of our total output of such products. England, Germany, France, Belgium, and Holland shipped abroad a total of manufactured goods equal to 60 per cent. of their production. The record per capita exports of the United States—reached in 1913—were about \$25. Those of Holland were

\$210; Belgium, \$100; Great Britain, \$53; Germany, \$33; and France, \$32.

The assumption that America will not obtain an increased proportion of foreign trade because it is demonstrably not vital to its commercial existence, can hardly be supported. Proper appreciation of the American temperament suggests that refuge in the last ditch is not essential to arouse the fighting spirit. Adequate incentives undoubtedly will be found in the realization that exports aid in stabilizing home industry; that foreign business may be *profitable without a profit* if it reduces costs in our own country; and that the expansion of our oversea trade is necessary as a defensive as well as offensive measure. Our manufacturers must maintain a great volume of production in order to meet success on the narrowed margin of profits brought about by increased competition with foreign manufacturers. Our recurring periods of depression, if not prevented, would at least undergo some mitigation as a result of commercial expansion, because our foreign trade would take up some of the slack attendant upon an over-rapid advance.

These are some of the conclusions which have been responsible for the renewed effort to increase our oversea commerce. At the recent convention of the National Foreign Trade Council in Washington the situation and the prospects were ably discussed by the leading representatives of our industrial and commercial bodies. The activities of this organization have not been confined to felicitations and resolutions, but have been manifested in sustained effort to arouse interest and promote activity along definite lines.

Speaking in broad terms, no permanent success in world commerce has ever been achieved by any nation without a certain command of the machinery by which it is conducted: ocean transportation, banking, exchange, and insurance facilities. America may accomplish this miracle without the aid of this equipment, but reliance upon fortuitous circumstances in lieu of approved methods is an invitation to disappointment. The manufacturer who makes the goods and the merchant who sells them undoubtedly come first in the list of essential factors. A general discussion of our bid for an increased share in the oversea trade therefore entails the problems of how the products are to be manufactured, sold, financed, and transported. An important place also must be given to the *attitude which the exporting country*

*maintains toward its citizens who are engaged in foreign trade.*

Those manufacturers who have won success in foreign fields, especially in the less developed countries, have given first consideration to the fact that the foreign market must be treated as a primary market. This is the method followed by Germany, Great Britain, Holland, Belgium, and to a certain extent by France. It seems trite to say that the article to be sold must be something that the foreign customer really wants. This truism, however, has never been fully appreciated by the American manufacturer. With a few notable exceptions there has been no systematic effort to meet the requirements of foreign buyers. In times of depression the threatened congestion has aroused an impatient eagerness to sell, not what the foreign market needs, but what the domestic manufacturer has on hand. This policy has been largely responsible for the complaints of rejected shipments and unpaid accounts which have loomed like scarecrows in the fertile field of foreign trade.

Thanks to the increasing efficiency of our consular service and the helpful interest manifested by the Department of Commerce, no American manufacturer need rush blindly into unprofitable errors. Specific reports on the demand for certain products, surrounding market conditions, tariff restrictions, and credits are available upon inquiry. The Bureau of Foreign and Domestic Commerce of the Department of Commerce has been constituted the ganglion of our system of trade development. Recently, through the assignment of trained specialists known as "commercial attachés" to the task of studying foreign manufacturing and business methods, a step has been taken to grant to our commerce a place in diplomacy rivaling that which previously has been monopolized by our international political relations.

Only those who have been engaged in the export trade are in a position to appreciate the marked improvement in our consular service, in the alert interest manifested toward increasing our commerce. One instance should suffice for illustration. A few years ago, it will be recalled, the carelessness of American methods of packing were cited as among the chief causes of our failure in the Latin-American field. Machinery was so poorly crated that it often arrived in a damaged condition. This meant a delay of months before the missing parts could be replaced. Goods intended

for shipment on mule-back over the Andes were put up in such bulky form that their transportation to the ultimate destination was an impossibility unless the style of the original package was changed.

The persistent hammering of our consuls changed all this. Month after month in their reports to Washington and in their communications to exporters they preached the gospel of proper packing. They exploded the idea that the demand of the foreign customer was a mere whim. They set forth the necessity of protecting the contents of cases from drippings in the holds of tramp steamships, from careless handling by stevedores. As a result of this campaign the complaint of faulty packing by American exporters is based largely on legend, which, however, is faithfully nurtured by our trade rivals.

In recent years diplomacy has been turning more and more to the furtherance of foreign trade. This function, previously largely confined to the negotiation of commercial treaties, now intrigues for government contracts, concessions, and participation in loans, the safeguarding of patent rights, and opposition to laws inimical to the extension of trade.

The leading European countries, in fact, consider diplomacy the basis of their oversea commerce. In many respects Germany presents the most striking example of results achieved by the co-operation of government and business. Through the unremitting vigilance of its Foreign Office and the enactment of favorable legislation, German commerce has been given a stimulus and vigor which the energy of its manufacturers and merchants alone could not have imparted. Trade in Germany also has been "set free," and the business legislation of that country shows an encouraging absence of statutory attempts to nullify economic laws. The government policy even goes to the extent of forcing unusual credits to exporters from banks or granting freight reductions on railroads or steamship lines in order that foreign competition may be met.

Second only to the manufacture of articles which meet the requirements of the export trade comes the selling of these products. For the purpose of this discussion it would seem best to treat the question from the standpoint of the small manufacturer. The export relations of our large corporations have been won only by campaigns lasting for years,

entailing enormous expenditures of energy and money. No such resources are at the command of the small manufacturer, although the pioneer work done by the large American concerns has been of assistance in creating markets and establishing prestige for American goods.

Generally speaking, however, no small manufacturer can develop a foreign market except for patented articles in which there is no competition. The expense of advertising and other methods of establishing trade, the necessity of maintaining personal contact with customers, the credit risk, unless there are ample facilities for investigation, all these and many other features would entail an outlay too great to be borne, except by a business of large volume.

Once more German methods may be cited with profit. The export business of thousands of small German manufacturers is handled almost entirely by large selling units, which have been found to perform the merchandizing function more efficiently and economically than would be possible by the individual of moderate resources. It is necessary to employ men of high character, thorough business training, and equipped with a knowledge of the language and social and business customs of the country to which they are assigned. Strong selling organizations *under American management*, equipped to give adequate service to the exporting manufacturer and the purchaser, and to furnish the needed capital for extending credit would solve the problem of the disposal of our products and remove from that branch of commerce many of the traditional difficulties which have hitherto stood as lions in the path of our pilgrims seeking foreign trade.

The extension of our foreign business would tend logically to the development of co-operative associations of manufacturers producing articles along kindred lines. Makers of electrical supplies, railroad equipment, appliances for hydro-electric power, cotton goods, and other needed forms of merchandize could be organized into separate groups, thus laying the basis for concentrated effort, and at the same time eliminating the element of ruinous competition among our own exporting producers. The expense to the individual members of these selling groups would not be onerous, as efforts would not be directed so much to obtain profits for the co-operative association as for its constituent members.



One obstacle to the development of selling combinations for the foreign field has been presented by our legislative attitude. With the competitive instinct receiving emphasis from statutory mandate the question has been raised as to whether an attempt to foster selling combinations for the foreign field would not come under the ban of our anti-trust laws. The absurdity of regulations which would prevent our manufacturers from getting together and cutting down selling expenses in order to meet the manufacturers of Germany, Great Britain, and other countries on even terms is too patent to deserve further comment. Nevertheless, the doubt upon this point acts as a restraint upon our commerce, and until judicial decision or Congressional disclaimer removes the possibility of criminal procedure we may expect our merchandizing progress to be impeded. While the principle of the Sherman Law has been accepted in its application to our home market, the indirect extension of its provisions to make it inure to the benefit of the foreign competitor furnishes an implication inconsistent with our national intelligence.

The course of Germany in the famed potash imbroglio supplies an instance of helpful paternalism and the unwillingness of Government to put upon its citizens engaged in foreign commerce any forced competition or unreasonable restraint that would reduce the profit accruing to its own people. In this case the Minister of Commerce abrogated the contracts entered into by independent producers because the sales had been made at prices which the potash syndicate did not care to meet. This action was justified on the ground that there would be a drop in prices (to quote the official explanation) "to such an extent that the *profit of foreign countries* and the loss to the domestic production would be very considerable."

Although there has been a faint disposition to question the importance of establishing direct banking relations in the furtherance of foreign trade, the contentions are not sustained by the experience of commercial nations from Venice down to the present day. Credit machinery is needed to finance the distribution of products and to carry the goods until they are paid for. It is merely a question as to whether this function is to be performed for our export trade by European or American bankers. Until the American banker establishes the dollar as a stable measure of

value by the side of the pound sterling, so long will American commerce be handicapped by the impost of additional exchange transactions which do not constitute a tax on the trade of our most formidable rivals. Moreover, it is impossible to escape the conclusion that a considerable advantage is accorded our competitors from the espionage of documents accompanying bills of exchange upon their arrival in foreign banks, thus revealing our plans and trade secrets, giving information which may be placed at the disposal of home customers in the country of the bank's origin.

These two elements—and there are many others—should furnish sufficient incentive for direct banking relations, a step which has already been undertaken by the far-sighted management of the National City Bank of New York.

Of supreme importance to our commerce, and as a logical development of direct banking relations, would come the pronounced extension of our investment operations in the less developed countries. Direct banking relations would perform the reconnaissance work, lay the basis for essential amity, and remove numerous misconceptions arising from past blunders and insular egoism. With the ultimate flow of capital into the new fields of our activities the stimulus to commerce would produce returns through countless channels.

The mercantile intelligence of Great Britain, and later of Germany, has been alive to the importance of developing the resources of the countries in which attempts have been made to extend commercial relations. Funds advanced for the building of railways, tram lines, irrigation works, and public improvements involve a preference in the furnishing of equipment and supplies, and in numerous instances a voice in the administration of the new projects. It has become the established practice in loan contracts made by the leading European nations with the less developed countries to stipulate that the materials shall be furnished by manufacturers of the country lending the money. While we have been dazzled by the shibboleth "Trade follows the flag," the practical Old World merchant has built up his solid success on the principle that "Trade follows the loan."

The magnitude of European investments in the newer countries is almost as difficult to grasp as astronomical dimensions. Sir George Paish in the last annual banking number of the *Statist* estimated that upward of \$40,000,000,000 of

capital had been supplied to the less-developed countries by the five "lending nations"—Great Britain, Germany, France, Belgium, and Holland. The investment of this vast sum has enriched both borrowers and lenders. The aggregate value of the imports of the five lending nations two generations ago was less than \$1,250,000,000. Largely owing to the impetus given to industry by advances of capital for development, these same five countries are now buying \$10,000,000,000 worth of goods annually from other countries. On the basis of London Stock Exchange listings, British investments in Latin-America are estimated at \$5,800,000,000, yielding an annual return of more than \$200,000,000. The purchases of the United Kingdom from Latin-America in 1912 were only slightly in excess of \$300,000,000, and the investment returns pay nearly two-thirds of the bill.

Investing power is a national asset. It can be utilized when other advantages such as cheap labor, cheap raw material, and improved machinery have been reduced to the common factor and canceled. We are a nation of borrowers. So was Germany when she started to build up her foreign trade. She took advantage of her high credit to borrow at low rates in order to have funds available to loan at still higher rates. The big returns on these advances rest on the principle that the obligation of the borrower is not confined merely to the repayment of the debt with interest.

The need for American ships to transport American products has not yet become a commercial ideal with us. Until that time comes our goods will continue to be taxed with higher freight rates than Europe pays. Tonnage assembles where commerce is most active, and commerce above all things has a habit of moving along the lines of least resistance.

If the American genius for organization, already demonstrated in the domestic field, is really about to be concentrated on the extension of oversea trade, many existing obstacles will be removed. The courage of our industrial leaders and common sense of the people at large warrant such a prophecy. Sacrifices must be made, but these have no terrors. Notwithstanding our limited experience, we have already learned that in the game of world commerce psychology plays a part almost equal to that of economics.

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